



# Administrative Report

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H.25., File # 21-2959

Meeting Date: 9/7/2021

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**To: MAYOR AND CITY COUNCIL**

**From: DIANE STRICKFADEN, DIRECTOR OF HUMAN RESOURCES**

## **TITLE**

APPROVE AN UPDATED PAY AND BENEFITS PLAN FOR THE MANAGEMENT AND CONFIDENTIAL EMPLOYEE GROUP TO ADDRESS CALPERS AUDIT FINDINGS REGARDING LANGUAGE AMENDMENTS NECESSARY TO COMPLY WITH CALPERS REPORTING GUIDELINES

ADOPT BY TITLE ONLY RESOLUTION NO. CC-2109-089, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, UPDATING THE PAY AND BENEFITS PLAN FOR MANAGEMENT AND CONFIDENTIAL EMPLOYEES

## **EXECUTIVE SUMMARY**

In July 2015, the City Council approved an updated Pay and Benefits Plan for the City of Redondo Beach Management and Confidential Employees group. One of the provisions in the Pay Plan allowed a member to earn from 1% to 25% of base salary in the form of Management Incentive Pay (MIP), as determined by the City Manager. The purpose of this special compensation is to allow flexibility for the City Manager to recognize the unique nature of the Management and Confidential unit's diverse job classifications and contributions, and compensate them accordingly. The intent of this provision has always been to allow the Management Incentive Pay, if earned, to be reportable to CalPERS as special compensation, which in turn would apply towards the member's retirement.

Each time a member retires from service, the CalPERS audit department reviews all special compensation that has been reported for the retiring member. In July 2021, CalPERS audited the special compensation reported for the City's recently retired Finance Director, as part of this routine review process. CalPERS evaluated the language regarding Management Incentive Pay in the Pay and Benefits Plan, to ensure that it fully complied with California Code of Regulations Section 571. After two meetings with the CalPERS audit department, they determined that the language needed to be further refined in order to maintain compliance with their reporting requirements. CalPERS representatives met with City staff and approved amendments to the language that would allow it to remain as reportable special compensation, if said amendments became part of the Pay and Benefits Plan. Attached for Council review is an updated Pay and Benefits Plan, amending Section 3.03, "Management Incentive Pay" as required by CalPERS.

## **BACKGROUND**

On July 7, 2015, the City Council approved an updated Pay and Benefits Plan for the City of Redondo Beach Management and Confidential Employees group. In Section 3.03 of that Pay Plan, Management Incentive Pay was established as a special compensation to recognize and reward Management and Confidential employees for the unique nature of their jobs. The amount of pay has been left to the discretion of the City Manager, and is listed as “up to 25%”. This provision replaced and renamed a similar provision called “Additional Duties Pay”, which was not considered reportable compensation to CalPERS.

The language in the Pay and Benefits Plan when initially added in 2015 was as follows:

“An employee may be assigned management incentive pay for unique duties. The City Manager may approve this pay commensurate with these duties while such duties are assigned. Such incentive pay may be an amount up to 25 percent of the employee’s regular base pay. Such pay may be reduced or removed without cause, notice or hearing.”

The amended language in the attached version of the Pay and Benefits Plan is as follows:

“Effective July 7, 2015 and in recognition of the unique nature of the City’s executive management and confidential positions and associated job responsibilities, Management Incentive Pay may be provided annually as a percentage of base pay, not to exceed a maximum of 25% in any fiscal year. Management and Confidential employees are responsible for coordinating the services provided by their department and are held accountable for responding to the distinctive needs of the community, irrespective of time and place. The amount of Management Incentive Pay will be determined at the discretion of the City Manager in the following tiered categories: a low tier of 1%-10%, an intermediate tier of 10%-17.5%, and an upper tier of 17.5%-25%. Placement within these tiers will be dependent on the level and diversity of the individual’s job functions, regardless of hours worked, and other unique and relevant circumstances associated with the position. Management Incentive Pay is available to all employees included in the pay and benefits plan and employees shall not be allowed to the option to decline Management Incentive Pay. Management Incentive Pay shall not be for overtime, nor in lieu of other benefits excluded under the California Public Employees Retirement Law statutes, not for special compensation not otherwise listed in Title 2 CCR, Section 571. To the extent permitted by law, this pay is special compensation and shall be reported as such pursuant to Title 2 CCR, Section 571 (a)(1) Incentive Pay - Management Incentive. Such pay may be reduced or removed without cause, notice or hearing.”

Each time a member retires, CalPERS audits all reported compensation that a member received in order to determine if it complies with their regulations. CalPERS recently conducted such an audit of the special compensation received by the recently retired Finance Director. Their auditors reviewed the language regarding Management Incentive Pay in the Pay and Benefits Plan, and determined that it was too vague, and needed to be more specific in order for it to fully comply with the Government Code. CalPERS representatives stated that the City would either need to amend the language, or change the pensionable reporting status of each member’s contribution retroactively. CalPERS met with City staff on two occasions to discuss the proposed revisions, and agreed that the

language proposed in the attached Pay and Benefits Plan, if approved by Council, will comply with CalPERS regulations.

Attached for Council review is an updated Pay and Benefits Plan which amends Section 3.03 regarding Management Incentive Pay.

**COORDINATION**

The Pay and Benefits Plan was prepared by Human Resources in cooperation with the City Attorney's Office.

**FISCAL IMPACT**

There is no fiscal impact. The City has budgeted for the pay as compensable towards CalPERS since its inception.

**APPROVED BY:**

*Joe Hoefgen, City Manager*

**ATTACHMENTS**

Resolution with Pay and Benefits Plan